

**REPORT OF THE AUDIT OF THE  
LYON COUNTY  
CLERK**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LYON COUNTY CLERK**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the Lyon County Clerk's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$46,467 from the prior year, resulting in excess fees of \$212,816 as of December 31, 2007. Revenues increased by \$220,848 from the prior year and expenditures increased by \$174,381.

#### **Report Comments:**

- The County Clerk's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The County Clerk's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James C. Campbell, Lyon County Judge/Executive  
The Honorable Sarah DeFew, Lyon County Clerk  
Members of the Lyon County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Lyon County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2008 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable James C. Campbell, Lyon County Judge/Executive  
The Honorable Sarah DeFew, Lyon County Clerk  
Members of the Lyon County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Lyon County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

September 29, 2008



LYON COUNTY  
SARAH DEFEW, COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

State Grants	\$	1,610
State Fees For Services		4,283
Fiscal Court		75,208
Licenses and Taxes:		
Motor Vehicle-		
Licenses and Transfers	\$	307,335
Usage Tax		618,648
Tangible Personal Property Tax		703,198
Auto Liens		3,890
Other-		
Fish and Game Licenses		6,250
Marriage Licenses		1,456
Occupational Licenses		1,040
Deed Transfer Tax		53,079
Delinquent Tax		141,355
		1,836,251
Fees Collected for Services:		
Recordings-		
Deeds, Easements, and Contracts		9,239
Real Estate Mortgages		19,658
Chattel Mortgages and Financing Statements		20,333
Powers of Attorney		852
Affordable Housing Trust		16,002
All Other Recordings		12,087
Charges for Other Services-		
Title Applications & Notary		380
		78,551
Other:		
Miscellaneous		1,745
Interest Earned		2,970
Total Revenues		2,000,618

The accompanying notes are an integral part of this financial statement.

LYON COUNTY  
 SARAH DEFEW, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For the Year Ended December 31, 2007  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 225,388
Usage Tax	600,635
Tangible Personal Property Tax	271,856

Licenses, Taxes, and Fees-

Fish and Game Licenses	6,084
Delinquent Tax	16,474
Legal Process Tax	9,920
Affordable Housing Trust	<u>16,002</u>
	\$ 1,146,359

Payments to Fiscal Court:

Tangible Personal Property Tax	55,278
Delinquent Tax	12,493
Deed Transfer Tax	50,515
Occupational Licenses	<u>624</u>
	118,910

Payments to Other Districts:

Tangible Personal Property Tax	348,182
Delinquent Tax	<u>76,729</u>
	424,911

Payments to Sheriff

1,104

Payments to County Attorney

20,747

Operating Expenditures and Capital Outlay:

Other Charges-

Postage	138
Bad Debt	378
Refunds	620

Grant Expenditures-

Digital Imaging and Scanning	<u>1,610</u>	<u>2,746</u>
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Total Expenditures

\$ 1,714,777

The accompanying notes are an integral part of this financial statement.

LYON COUNTY  
 SARAH DEFEW, COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For the Year Ended December 31, 2007  
 (Continued)

Net Revenues		\$	285,841
Less: Statutory Maximum			<u>66,038</u>
Excess Fees			219,803
Less: Expense Allowance	\$	3,600	
Training Incentive Benefit		<u>3,387</u>	<u>6,987</u>
Excess Fees Due County for 2007			212,816
Payments to Fiscal Court - Paid Monthly			<u>212,816</u>
Balance Due Fiscal Court at Completion of Audit		\$	<u><u>0</u></u>

The accompanying notes are an integral part of this financial statement.

LYON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LYON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Fee Pooling

The Lyon County Clerk participates in a fee pooling system with the fiscal court. Fee officials who participate in fee pooling deposit all funds collected into their official operating account. The fee official is responsible for paying all amounts due the taxing districts. Residual funds are then paid to the County Treasurer on a monthly basis. Invoices are submitted to the County Treasurer to document operating expenses. The County Treasurer in turn pays almost all operating expenses on behalf of the fee official.

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LYON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

In July 2006, the County Clerk was awarded a \$32,261 grant by the Commonwealth of Kentucky Department of Libraries and Archives. The County Clerk received \$1,610 of this grant during 2006. The County Clerk received the remaining \$30,651 in 2007. During 2007, the County Clerk expended the initial receipt of \$1,610. Over the past two years, the grant account has accrued interest totaling \$1,197, leaving an unexpended grant balance of \$31,848 as of December 31, 2007.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable James C. Campbell, Lyon County Judge/Executive  
The Honorable Sarah DeFew, Lyon County Clerk  
Members of the Lyon County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Lyon County Clerk for the year ended December 31, 2007, and have issued our report thereon dated September 29, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lyon County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lyon County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lyon County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lyon County Clerk's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Lyon County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

September 29, 2008

COMMENT AND RECOMMENDATION



LYON COUNTY  
SARAH DEFEW, COUNTY CLERK  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties

The Lyon County Clerk's office has a lack of adequate segregation of duties. Due to a limited number of staff, the same deputy preparing the consolidated checkout sheet also prepares the daily deposit. In addition, the County Clerk, who posts expenditures to the disbursements ledger, prepares and signs checks and performs the monthly bank reconciliation.

Segregation of duties over daily checkout procedures, deposit preparation, the preparation of checks, and disbursement posting, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against the misappropriation of assets, we recommend the County Clerk separate the duties of preparing the daily deposit from the preparation of the consolidated checkout, with the deputy preparing the consolidated checkout sheet accounting for the numerical sequence of issued receipts. Also, the preparation of disbursement checks should be separated from the posting of disbursements to the disbursements ledger and bank reconciliation. If these duties cannot be segregated due to a limited staff, then strong oversight should be provided to the employee or employees responsible for these duties.

*County Clerk's Response:* None.

